

Joe Gqabi District Municipality

Audit Report

For the year ended 30 June 2014

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF JOE GQABI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Joe Gqabi District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Joe Gqabi District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matter below. My opinion is not modified in respect of these matters

Material losses

8. As disclosed in note 46 to the financial statements, material losses of 51, 7(%) to the amount of R82, 9 million were incurred as a result of water distribution losses.

Additional matter paragraphs

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the Joe Gqabi District Municipality for the year ended 30 June 2014:
- Development priority objective 1: Service delivery and infrastructure provision (29), on pages 2 to 9
 - Development priority objective: Local economic development (4), on pages 10 to 12
 - Development priority objective: Financial viability and management (18), on pages 13 to 16
 - Development priority objective: Institutional development and transformation (5), on pages 17 to 20
 - Development priority objective: Good governance and public participation (9), on pages 21 to 24

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My finding on material non-compliance with a specific matter in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, is as follows:

Annual financial statements

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. A material misstatement of supply chain management deviations was identified by the auditors in the submitted financial statements and was subsequently corrected.

Internal control

20. I considered internal control relevant to my audit of the financial statements and compliance with laws and regulations. The matter reported below under the fundamentals of internal control is limited to the significant deficiency that resulted in the finding on compliance with laws and regulations included in this report.

Financial and performance management

21. The fact that monitoring and review controls were not functioning consistently throughout the year indicates that the system was unable to produce annual financial statements that are free from material misstatements.

OTHER REPORTS

Investigations

22. An in house investigation, relating to the dishonest conduct of staff members of the municipality, is still underway.

Auditor - General

East London

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence